Value Relevance Of Tax Expense In Indonesia's Lq45 Companies

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Article Info	Abstract
	Abstract *This study examines the value relevance of income tax information in the Indonesian capital market using firms listed in the LQ45 index from 2020 to 2024. Adopting the Feltham and Ohlson (1995) price valuation model, it includes book value, earnings per share (EPS), and tax expense as predictors of stock price. Ordinary Least Squares (OLS) regression results show all three variables significantly and positively affect stock price, with tax acting as an indicator of profitability. The findings underscore the strategic importance of transparent tax reporting in enhancing investor confidence, reducing information asymmetry, and improving the usefulness of financial statements.*

INTRODUCTION

Tax information has been studied related to its informativeness. Zeng (2024) suggests that tax expense carries informativeness because it conveys information about a firm's future profitability that is not already captured by the earnings. Tax may reflect the firm's expected future income, tax planning strategies, or the sustainability of earnings—that investors interpret as signals of future profitability (Agyei & Yankey, 2019). Brouwer & Naarding (2018) delve into a series of studies examining the association between book-tax differences and quality of earnings. The difference refers to the discrepancy between a firm's reported financial income and its taxable income. Book-tax differences are associated with reduced earnings quality, suggesting that these differences may reflect less reliable or sustainable earnings figures.

Kimouche (2022) found that deferred taxes have no effect on earnings persistence or their ability to predict future performance because tax information

from accounting reports does not improve the accuracy of performance forecast or assessing firm risk (Guenther et al., 2017). Tax expense information may also reduce their predictive value (Dreher et al., 2017), because it could open opportunities for earnings management, thereby reducing the reliability and comparability of earnings across firms and periods (Guenther et al., 2017).

Taxation also have body of authority that functions as an external monitor of corporate insiders by scrutinizing the accuracy and consistency of financial reports for tax compliance purposes (Desai et al., 2007). This oversight deters managers from misreporting or manipulating financial data, thereby enhancing the reliability and credibility of the information presented in financial statements. For example, because firms are required to reconcile book and tax expense and justify tax positions during audits or filings, the presence of tax authority monitoring increases the likelihood that reported figures—such as revenues, expenses, and taxable income—reflect the firm's actual economic activities (Kerr, 2019). This, in turn, strengthens the trust investors and other stakeholders place in the financial statements.

In Indonesia, the corporate income tax rate is a charge applied to companies based on the net income earned from their business activities, usually calculated in a fiscal year. This tax represents a major source of government income and is essential for funding public spending, such as infrastructure projects, education, healthcare services, and social welfare initiatives (Syamsu & Hidayatulloh, 2021).

By taxing corporate profits, the government aims not only to generate fiscal resources but also to promote a fair contribution from the individual or large business sector to national development and public services (Magfiroh et al., 2024). Currently, Indonesia's corporate tax rate is set at 22 percent. Historically, the average rate has been 26.97 percent between 1997 and 2025, with the highest rate recorded at 39.00 percent in 2002 and the lowest at 22.00 percent in 2021 (tradingeconomics.com, 2025).

Stakeholder theory posits that a corporation's responsibilities extend beyond its shareholders to include various stakeholders such as employees, customers, suppliers, regulators, and society at large (Freeman, 1984). In this context, the amount of corporate tax paid is not merely a statutory obligation but

also a reflection of the firm's commitment to social responsibility and ethical conduct. From an investor's perspective, corporate tax payments can have value relevance, meaning they convey information that is useful in assessing a company's future performance and long-term sustainability. Firms that are perceived as paying a fair share of taxes may be viewed more favorably by investors who value corporate legitimacy, regulatory compliance, and reputational capital. Such perceptions can reduce perceived risk, enhance firm credibility, and potentially lead to higher market valuations (Jim & Park, 2021).

Financial information is considered value relevant when it has a significant association with stock prices or market values, implying that the information is useful for investors in making economic decisions (Barth et al., 2023). Corporate income tax information, particularly tax expense, in enhancing or reducing the usefulness of reported earnings in capital markets. According to stakeholder theory, corporate tax behavior reflects a firm's alignment with broader societal expectations, signaling ethical conduct and long-term commitment to sustainable operations (Kolsi, 2017).

As such, transparent and responsible tax reporting may serve as an important signal to the capital market, positively shaping investor perceptions openly disclose their tax obligations, they enhance institutional trust and project a reputation for governance integrity (Guedrib & Marouani, 2023). This perceived credibility can reduce the informational asymmetry between firms and investors, thereby lowering perceived investment risk (Nopiana & Salvi, 2022). The market often rewards such behavior, as investors tend to favor firms that align with broader stakeholder expectations, particularly in environments where public accountability and fiscal transparency are increasingly valued especially about taxation, and can foster stronger investor confidence, enhance a firm's reputation in the eyes of socially responsible investors, and ultimately contribute to higher stock valuations (Görlitz & Dobler, 2023).

Moreover, the magnitude and pattern of tax expense reported over time can provide valuable information regarding a firm's underlying profitability, the quality of earnings, and the sustainability of its financial performance. According to Graham et al. (2012), tax expense figures—especially when derived from current taxes rather than deferred components—reflect a company's actual taxable

income, which is often less subject to accounting manipulation compared to book earnings. Investors may interpret higher tax payments not as a mere outflow of resources, but as a confirmation of strong and consistent earnings, suggesting robust operational results and a healthy financial position (Amri et al., 2023). This reinforces the idea that corporate tax payments, far from being a value-destroying element, may instead serve as value-relevant indicators that enhance the overall usefulness of financial statements for capital market participants (Jim & Park, 2021).

Based on the gaps and theoretical perspectives discussed above, this research aims to contribute to the taxation literature by examining the role of tax information in decision-making, particularly within the context of the stock market. Accordingly, the hypothesis proposed is:

H1: Income tax is value relevant.

METHODS

The study will utilize the price valuation model which has been applied in prior research (Zeng, 2024). To better align with the current research objectives, the model will be adapted by incorporating income tax variable, thereby allowing a more comprehensive examination of the relationship between tax and stock price.

$$P = \beta_0 + \beta_1 BV + \beta_2 EPS + \beta_3 lnTAX + e ....(1)$$

where *P* represents the end-year closing stock price, *BV* is the book value at the end of the period, *EPS* refers to earnings per share for the period, and *lnTAX* is the natural logarithm of income tax paid. The data for these variables were sourced from the annual reports of LQ45 companies, obtained through the Indonesia Stock Exchange (IDX) website.

The sample comprises companies listed in the LQ45 index of the Indonesia Stock Exchange (IDX), which includes 45 firms with the highest market capitalization and liquidity during the 2020 to 2024 period. To ensure consistency and data reliability, firms reporting negative earnings per share (EPS) and those not continuously listed throughout the observation period were excluded from the sample. Following this screening process, the final sample comprises 31

companies, resulting in a total of 155 firm-year observations.

RESULTS AND DISCUSSION

This section begins with the presentation of descriptive statistics and the results of Pearson correlation analysis.

Table 1 Statistics Descriptives and Pearson Correlation

	Min.	**Max.**	**Mean**	**BV**	**EPS**	**lnTAX**	**P**
BV	490.00	39025.00	5243.1419	1	0.848**	0.798**	0.388**
EPS	56.00	27659.00	4121.8903	0.848**	1	0.797**	0.320**
lnTAX	2.71	14613.60	643.9308	0.798**	0.797**	1	0.264**
P	11.85023	17.06007	14.134031	0.388**	0.320**	0.264**	1

**) significant at 0.01 level

Based on Table 1, as for correlation test, BV is correlated to EPS and stock price ($p < 0.01$), EPS is correlated with BV and stock price ($p < 0.01$). Lastly, lnTAX, tax expense proxy which is our main variable, is correlated with BV, EPS and stock price (significant at 0.01 level).

The analysis proceeds with hypothesis testing, utilizing Ordinary Least Squares (OLS) regression to examine the data. The statistical analysis was conducted using SPSS version 21 software.

Table 2 Hypothesis testing

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	BV	.611	.074	.542	8.308	.000**
	EPS	1.346	.259	.332	5.188	.000**
	Tax expense	666.016	214.184	.127	3.110	.002**

*Dependent variable: P, end-year closing stock price, ***significant at 0.05 level

Based on Table 2, as expected, both BV and EPS demonstrate a positive and significant effect on stock price, with p-values of 0.000 for each—well below the 0.05 threshold—accompanied by coefficients of 0.611 and 1.346, respectively. This suggests that the ability of accounting information to explain variations in

stock prices has strengthened, offering greater benefits to users in the financial markets. This finding is consistent with previous studies (Badu & Appiah, 2018; Nguyen & Dang, 2023; Onali et al., 2017) that book value and earnings are jointly affect stock prices.

Book value represents the company's net asset value as recorded on the balance sheet and is especially important for companies with significant tangible assets, serving as a baseline or floor value for the stock. Earnings, on the other hand, reflect the company's profitability over a specific period and provide insight into its ability to generate future cash flows and growth. Generally, earnings tend to have higher value relevance because they more directly capture a firm's current performance and growth potential, which the market reacts to more immediately (Nguyen & Dang, 2023). However, book value remains crucial for understanding a company's underlying net worth, particularly in asset-intensive industries. Together, these metrics offer complementary perspectives, with book value showing the accumulated wealth and earnings indicating ongoing profitability, both of which are vital for investors in determining the true value of a company (Badu & Appiah, 2018).

The main variable, tax expense also shows a significant influence on stock price, as evidenced by its p-value of 0.002, which is under 0.05. This finding is consistent with earlier research (Brouwer & Naarding, 2018; Görlitz & Dobler, 2023; Zeng, 2024), supporting the notion that tax-related data holds value relevance and can influence investor decision-making, therefore, H1 is accepted.

Higher tax expense today may signal greater expected profitability in the future, creating value relevance for investors. Tax expense serves as an indicator of profitability, reflected by its association with a positive coefficient, suggests that an increase in tax expense could actually be interpreted as good news (Kerr, 2019). This is because taxes are typically calculated based on taxable income, which often correlates with the firm's overall financial health. Hence, a higher tax bill may reflect higher earnings, assuming aggressive tax avoidance strategies are not at play. Importantly, this role does not assume that other variables remain constant; instead, it recognizes that tax expense can convey incremental information about a firm's future performance—information that is not captured by other current financial indicators such as earnings before tax, cash flow, or book value. When tax-related information is value-relevant, it enhances

transparency by shedding light on a company's tax strategies, associated risks, and potential uncertainties. By ensuring that income tax expenses carry value relevance, companies provide stakeholders with a more accurate, complete, and insightful representation of their financial condition and operational results (Görlitz & Dobler, 2023).

CONCLUSION

The findings demonstrate that book value (BV), earnings per share (EPS), and tax expense all have a positive and significant influence on stock price, highlighting the importance of accounting information in valuing a company. Notably, tax expense not only serves as a financial burden but also acts as an indicator of a firm's future profitability, providing additional insights beyond traditional accounting metrics. When presented transparently and with relevance, income tax information enhances stakeholders' understanding of a company's financial position and performance. For managers, they should recognize the strategic importance of transparent and value-relevant tax reporting. Rather than viewing tax expense solely as a cost to be minimized, firms can leverage it as a signal of financial strength and credibility in the eyes of investors. Clear and accurate disclosure of tax-related information can build investor confidence, improve capital market perceptions, and potentially enhance firm valuation.

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